

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Implement the
Commission's Procurement Incentive Framework and to
Examine the Integration of Greenhouse Gas Emissions
Standards into Procurement Policies.

Rulemaking 06-04-009
(Filed April 13, 2006)

California Energy Commission Docket #07-OIIP-01

**PREHEARING CONFERENCE STATEMENT OF
THE NATURAL RESOURCES DEFENSE COUNCIL (NRDC), UNION OF
CONCERNED SCIENTISTS (UCS) AND ENVIRONMENTAL DEFENSE (ED)
COMMENTS
ON PRELIMINARY STAFF RECOMMENDATIONS FOR
TREATMENT OF NATURAL GAS SECTOR GHG EMISSIONS**

July 26, 2007

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1. Introduction and Summary.

The Natural Resources Defense Council (NRDC), Union of Concerned Scientists (UCS), and Environmental Defense (ED) respectfully submit this prehearing conference (PHC) statement in accordance with the "Administrative Law Judges' Ruling Regarding Comments on Staff Natural Gas Proposal" (ALJ Ruling), dated July 12, 2007, and in accordance with Rules 1.9 and 1.10 of the California Public Utilities Commission's (CPUC) Rules of Practice and Procedure. We also concurrently submit these comments to the California Energy Commission (CEC) in Docket #07-OIIP-01, the CEC's sister proceeding to this CPUC proceeding.

NRDC is a non-profit membership organization with a long-standing interest in minimizing the societal costs of the reliable energy services that a healthy California economy needs. In this proceeding, we focus on representing our more than 124,000 California members' interest in receiving affordable energy services and reducing the environmental impact of California's energy consumption. UCS is a leading science-based non-profit working for a healthy environment and a safer world. Its Clean Energy Program examines the benefits and costs of the country's energy use and promotes energy solutions that are sustainable both environmentally and economically. ED is a national nonprofit organization representing more than 500,000 members. Since 1967, we have

linked science, economics and law to create innovative, equitable and cost-effective solutions to society's most urgent environmental problems.

NRDC, UCS, and ED commend the two Commissions for their leadership in addressing global warming and reducing greenhouse gas (GHG) emissions through their decisions and actions over the past several years. As directed by the ALJ Ruling, in this PHC statement, NRDC, UCS, and ED first address scoping and scheduling issues and then provide comments on the “Preliminary Staff Recommendations for Treatment of Natural Gas Sector Greenhouse Gas Emissions” (Staff Report), included as Attachment A to the ALJ Ruling. NRDC, UCS, and ED appreciate the staff’s hard work in developing the Staff Report. These comments are summarized as follows:

- NRDC, UCS, and ED support the Staff Report's recommendations for the regulatory treatment of natural gas sector GHG emissions.
- The Commissions should emphasize that regulatory programs and a cap-and-trade program are mutually enforcing, not mutually exclusive, tools.
- We urge the Commission staff to gather data about the number and type of natural gas end-users to determine for which end-users the utilities should be the point of regulation, and which end-users should themselves be the point of regulation.
- The Commissions should ensure that a reporting protocol is in place for all end-users of natural gas.
- The Staff Report should clarify the multiple benefits of using biogas to replace natural gas.
- The Staff Report should explore opportunities to reduce GHG emissions using solar thermal and combined heat and power.

2. Comments on scheduling issues.

NRDC, UCS, and ED support the schedule described in the ALJ Ruling. We believe that evidentiary hearings on the natural gas sector are not necessary, and the workshop process, as outlined in the ALJ Ruling, is sufficient. We support the ALJ Ruling’s proposal to integrate consideration of natural gas issues into the electricity

sector inquiry in Phase 2. In addition, we urge the Commissions to clarify the process for addressing mandatory reporting for the natural gas sector. The ALJ Ruling notes that the staff recommend that Phase 2 not consider reporting issues and that these issues will instead be addressed by the California Air Resources Board (CARB) (p. 4), but then states that an Assigned Commissioner Ruling on reporting issues will be scheduled for September 2007 (p. 5). As we discuss in further detail below, we believe it is essential that CARB adopt reporting requirements for the natural gas sector and we urge the Commissions to clarify in what forum those details will be discussed.

3. NRDC, UCS, and ED support the Staff Report’s recommendations for the regulatory treatment of natural gas sector GHG emissions.

NRDC, UCS, and ED support the Staff Report’s recommendations that if CARB establishes a cap-and-trade program, the natural gas sector should be capped, with (i) the point of regulation for smaller end-users at the distribution utility, (ii) larger end-users as regulated sources, and (iii) electric generation natural gas customers included as part of the electricity sector.

4. The Commissions should emphasize that regulatory programs and a cap-and-trade program are mutually complimentary, not mutually exclusive, tools.

In section V(C): “How to Regulate GHG Emissions,” the Staff Report states that the Commission considered two major options, regulatory programs and a cap-and-trade program, in reaching its conclusion that a load-based cap was the “preferred” mechanism in the electricity sector. (p.13) We urge the Commissions to clarify that the CPUC did not select the cap *instead* of regulatory programs, and instead determined that a cap should *complement* the regulatory programs. As the Staff Report notes for the natural gas sector, any cap-and-trade program “would need to rely heavily upon utilities achieving programmatic goals.” (p. 13)

NRDC, UCS, and ED believe it is important to emphasize that regulatory programs and a cap-and-trade program are not mutually exclusive. Rather, a cap-and-trade program must work in concert with regulatory programs to achieve the GHG reductions necessary to meet AB 32’s goals. While a cap is an important policy tool,

other regulatory programs are more effective at driving technological innovation in specific sectors, and must be part of the overall package of policies that California adopts to reduce global warming pollution. For example, a cap alone will not overcome the market barriers that prevent investment in energy efficiency. Instead, the cap acts as an umbrella that will ensure that all of the other clean energy programs “add up” to a specific emissions level. We urge the Commissions to maintain and expand upon the regulatory programs, such as the energy efficiency programs, that achieve GHG reductions, and to complement these programs with an emissions cap.

5. We urge the Commission staff to gather data about the number and type of natural gas end-users to determine for which end-users the utilities should be the point of regulation, and which end-users should themselves be the point of regulation.

As the report notes, there are several different options for the points of regulation in the natural gas sector. (p.12) NRDC, UCS, and ED support the Staff Report’s recommendation that distribution utilities should be the point of regulation for smaller end-users’ emissions, and larger end-users should themselves be the point of regulation. (pp.15-16) NRDC, UCS, and ED believe that an important point of inquiry for this proceeding will be to determine which end-users should be regulated as point sources, and which will be regulated at the utility level. NRDC, UCS, and ED agree with the Staff Report’s recommendation that large non-electric generation industrial customers, including enhanced oil recovery, direct and bypass customers, should be their own points of regulation and that smaller customers should be covered by the utility. To determine how best to distinguish large and small end-users, the Commissions should request information from the natural gas utilities about the number and type of customers they have at various size levels, such as:

- 2 to 3 million therms per year (approximately 10,000 to 16,000 metric tons of carbon dioxide¹),

¹ Conversion is based on oxidation and emission factors provided in California Energy Commission, *Inventory of California Greenhouse Gas Emissions and Sinks: 1990 to 2004*, CEC-600-2006-013-SF, December 2006, pp. 36, 59. (2 million therms * (10¹¹ Btu / million therm) * (31.9 lbs C / 10⁶ Btu) * 99.5% (oxidized) * (44 lbs CO₂ / 12 lbs C) * (1 metric tons / 2204.6 lbs) = 10,558 metric tons CO₂)

- 3 to 4.5 million therms per year (approximately 16,000 to 24,000 metric tons of carbon dioxide), and
- 4.5 million therms per year and above.

CARB is currently devising standards for mandatory reporting from stationary sources of GHG and is proposing to require reporting from all stationary sources that emit more than 25,000 MTCO₂E per year. According to staff presentations at CARB workshops on the topic, this size cut-off will capture about 140 stationary sources, including some large natural gas end-users. Under the Staff Report's recommendations to regulate the larger natural gas end-users as point sources, it is possible that CARB's mandatory reporting requirement should capture additional large users of natural gas that fall beneath this emissions threshold. For example, both PG&E and Southern California Gas (SoCal Gas) have existing thresholds, with a corresponding rate change, at 2 million therms per year (approximately 10,000 metric tons CO₂).² PG&E also has another threshold and rate change at 3 million therms per year (approximately 16,000 metric tons CO₂).³

NRDC, UCS, AND ED believe that most direct and bypass end-users of natural gas, as defined on page 4 of the Staff Report, will be classified as large end-users and thus will themselves be points of regulation, as indicated on page 16. However, it is possible that some direct or bypass customers may be smaller than CARB's proposed annual emissions reporting threshold for stationary sources of 25,000 metric tons of carbon dioxide equivalent (MTCO₂E) per year. The Commissions should collect information about the type and size of the direct and bypass customers, to ensure that they will be captured in CARB's mandatory reporting requirements for stationary sources. If there are some direct or bypass customers smaller than CARB's proposed cut-off of 25,000 MTCO₂E per year, then the Commissions should formulate an alternative means of requiring reporting from and compliance by those entities.

We recommend that determining the appropriate threshold for which larger end-users should themselves be the point of regulation and for which end-users the utilities

² See PG&E and SoCal Gas' tariffs at www.pge.com/tariffs/pdf/G-NT.pdf and www.socalgas.com/regulatory/tariffs/tm2/pdf/GT-F.pdf.

³ Id.

will be responsible should be included in the Staff Report's list of elements for a cap-and-trade program on page 14.

6. The Commissions should ensure that a reporting protocol is in place for all end-users of natural gas.

The Staff Report recommends that Phase 2 not address reporting for the natural gas sector and instead suggests that this be addressed through CARB's process. However, CARB has not yet addressed reporting requirements for the natural gas sector and does not currently seem likely to include it in the first set of reporting regulations by the end of this year. We urge the Commissions to ensure that a reporting program is developed in one forum or the other. As the Staff Report notes, the natural gas sector produces a significant portion of the state's GHG emissions, responsible for 14% of gross emissions (p. 7), so it is essential that the sector be included in the reporting program.

We support the Staff Report's recommendation that CARB's reporting regulations could be based on the California Climate Action Registry's reporting protocol for GHG emissions from transportation, distribution, and storage of natural gas, if it is expanded to include end-user emissions. (p.17) In order to avoid double-counting, this protocol should have a mechanism for excluding large natural gas users that are themselves a point of regulation and required to report through CARB's stationary source reporting requirement. The Commissions should recommend that CARB make it a priority to develop a mandatory reporting protocol for all end-users of natural gas in California.

7. The Staff Report should clarify the multiple benefits of using biogas to replace natural gas.

We agree with the Staff Report's statement that biogas from organic material could be a replacement for natural gas. (p.11) However, we urge that the Staff Report's statement that "[p]utting biogas to productive use would not reduce GHG emissions from the natural gas sector" be clarified. (Id.) Using biogas as a replacement for natural gas has two-fold GHG reduction benefits. As the Staff Report notes, it will reduce the release of methane, a much more potent GHG than CO₂, into the atmosphere and release

post-combustion CO₂ instead. In addition, the biogas is generated from organic material, in effect a “renewable” source of natural gas, and therefore also reduces the net amount of CO₂ emissions from the natural gas sector (just as electricity generated from biomass is considered to have net low GHG emissions).

8. The Staff Report should explore opportunities to reduce GHG emissions using solar thermal and combined heat and power.

The Staff Report examines three primary measures for reducing GHG emissions from the natural gas sector: (i) end-use energy efficiency, (ii) reducing leaks of methane, and (iii) biogas. We urge the Commissions to also explore additional opportunities to use solar thermal technologies and combined heat and power to reduce emissions in the natural gas sector.

9. The Staff Report should correct a typographical error on page 8 of the Staff Report.

On page 8, the Staff Report states that total statewide GHG emissions are 792, rather than 492, MMTCO₂E.

10. Conclusion.

NRDC, UCS, and ED commend the staff for their hard work in developing the Staff Report, and urge the Commissions to adopt the Staff Report’s recommendations with the additional suggestions described herein. NRDC, UCS, and ED look forward to continuing to work with the Commissions and other parties to reduce the natural gas sector’s GHG emissions.

Dated: July 26, 2007

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the **“Prehearing Conference Statement of The Natural Resources Defense Council (NRDC), Union Of Concerned Scientists (UCS) And Environmental Defense (ED) Comments on Preliminary Staff Recommendations for Treatment of Natural Gas Sector GHG Emissions in the matter of R.06-04-009** to all known parties of record in this proceeding by delivering a copy via email or by mailing a copy properly addressed with first class postage prepaid.

Executed on July 26, 2007 at San Francisco, California.



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